

AUDITING PROCEDURES REPORT

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Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Howell</u>	County Livingston
Audit Date 6/30/05	Opinion Date 9/9/05	Date Accountant Report Submitted To State: 10/27/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 1111 Michigan Avenue	City East Lansing	State MI	ZIP 48823
Accountant Signature <i>Plante & Moran, PLLC</i>			



City of Howell, Michigan

Financial Report with Supplemental Information June 30, 2005

City of Howell

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Independent Auditor's Report

To the City Council
City of Howell, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Howell, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Howell's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Howell as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof and for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the major funds' budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the City Council
City of Howell, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Howell's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 9, 2005

The following discussion and analysis of the City of Howell's annual financial report presents our view of the City's financial performance during the fiscal year that ended June 30, 2005. Please read it in conjunction with the City's financial statements, which follow beginning on page 14.

Financial Highlights

- The City's total net assets increased as a result of the fiscal year's operations. The net assets of our business-type activities increased by \$.5 million, or 1.6 percent, and net assets of our governmental activities decreased by \$342,000, or 1.7 percent.
- During the year, the City had revenues that were \$110,000 more than the \$12.6 million in expenses.
- In the City's business-type activities, revenues were \$4.2 million while expenses were \$3.7 million.
- Total costs of all the City's programs were \$12.6 million.
- The General Fund reported a minimal decrease for the year of \$84,000.
- The resources available for appropriation were \$105,000 less than budgeted in the General Fund. Expenditures were \$838,000 less than budgeted.

Overview of the Financial Statements

This annual report consists of the following report sections: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an optional section that presents combining statements for non-major governmental funds and internal service funds. The basic financial statements are presented in two different formats: government-wide financial statements and fund financial statements.

- The government-wide financial statements include the statement of net assets and the statement of activities. These statements provide both long-term and short-term information about the City's overall financial status.
- The fund financial statements include the balance sheet and the statement of revenue, expenditures, and changes in net assets/fund balances. These statements focus on individual parts of the City government and report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

City of Howell

Management's Discussion and Analysis (Continued)

Overview of the Financial Statements (Continued)

- The governmental fund statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.
- The proprietary fund statements present short- and long-term financial information about those activities that the City operates in a business-like manner, such as the water and sewer system.
- The fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information presented in the financial statements. In addition to these required supplementary schedules, we have provided a section with combining statements that provide details about our non-major governmental and internal service funds.

Government-wide Statements

The City's government-wide statements begin on page 14 of this report. These statements report information about the City as a whole under the accrual method of accounting, which is similar to the accounting used by most private-sector companies. The statement of net assets includes all, both current and long-term, of the government's assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The combined objective of the government-wide statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial health or position.

- Over time, increases or decreases in the City's net assets can be viewed as indicators of whether its financial health is improving or deteriorating, respectively.
- In addition to the financial factors, you will need to consider additional information such as changes in the City's property tax base and the condition of the City's roads to assess the overall health.

City of Howell

Management's Discussion and Analysis (Continued)

Government-wide Statements (Continued)

The City's government-wide financial statements divide the reported information into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, public works, recreation, and general information. Property taxes and state and federal grants are used to finance most of these activities.
- Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer system are included in this category.
- Component units - The City includes other legal entities in its report such as the Downtown Development Authority, TIFA, and Brownfield Redevelopment. The City is financially accountable for these "component units" although they are legally separate entities.

Fund Financial Statements

The City's fund financial statements begin on page 17 of this report. These statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law and by bond covenants and others are established by City Council to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds that use different accounting approaches:

- Governmental funds - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. These funds are reported using the modified accrual accounting method that measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we describe the relationship (or differences) between government activities and governmental funds in a reconciliation at the bottom of the fund financial statements.

City of Howell

Management's Discussion and Analysis (Continued)

Fund Financial Statements (Continued)

- Proprietary funds - When the City charges customers fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.
 - In fact, the City's enterprise funds (water and sewer) are the same as its business-type activities, but provide more detail and additional information.
 - We use internal service funds (the other type of proprietary fund) to report activities that provide services and supplies for the City's other programs and activities. The City currently uses two internal service funds, Department of Public Service and Equipment Pool.
- Fiduciary funds - The City is the trustee, or fiduciary, for its retired employee health insurance plan. It is also responsible for other assets that, because of a trust arrangement, can be used for the trust beneficiaries. The City is responsible for ensuring that the assets reported in these funds are used for their intended purpose. A separate statement of fiduciary net assets and a statement of changes in fiduciary net assets are presented on pages 25 and 26 of this report. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

City of Howell

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole

The City's combined net assets were increased from a year ago from \$48.7 million to \$48.8 million. The following table illustrates the varying results of the governmental activities and business-type activities which combine to capture the City's total net assets.

Table I

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total Primary Government	Total Primary Government
	2005	2004	2005	2004	2005	2004
Current assets	\$ 8,947,884	\$ 8,749,124	\$ 4,912,908	\$ 4,398,526	\$ 13,860,792	\$ 13,147,650
Noncurrent assets	<u>15,693,802</u>	<u>14,285,061</u>	<u>26,029,916</u>	<u>26,301,409</u>	<u>41,723,718</u>	<u>40,586,470</u>
Total assets	24,641,686	23,034,185	30,942,824	30,699,935	55,584,510	53,734,120
Long-term liabilities	3,850,000	2,505,000	1,458,814	1,671,117	5,308,814	4,176,117
Current liabilities	<u>1,322,815</u>	<u>717,320</u>	<u>180,109</u>	<u>178,476</u>	<u>1,502,924</u>	<u>895,796</u>
Total liabilities	5,172,815	3,222,320	1,638,923	1,849,593	6,811,738	5,071,913
Net assets:						
Invested in capital assets -						
Net of related debt	11,436,684	11,322,108	24,571,102	24,630,292	36,007,786	35,952,400
Restricted	2,219,967	2,795,449	2,552,513	2,141,129	4,772,480	4,936,578
Unrestricted	<u>5,812,220</u>	<u>5,694,308</u>	<u>2,180,286</u>	<u>2,078,921</u>	<u>7,992,506</u>	<u>7,773,229</u>
Total net assets	<u>\$ 19,468,871</u>	<u>\$ 19,811,865</u>	<u>\$ 29,303,901</u>	<u>\$ 28,850,342</u>	<u>\$ 48,772,772</u>	<u>\$ 48,662,207</u>

Net assets of the City's governmental activities decreased by 1.7 percent to \$19.5 million. Investments in capital assets, net of related debt, increased by 1.0 percent to \$11.4 million. This increase is due mainly to the reconstruction of City roads and the renovation of the City Hall.

Unrestricted net assets, or the portion of net assets used to finance day-to-day operations, without constraints established by debt covenants, enabling legislation, or other legal requirements increased by 2.1 percent or 118,000. The primary reasons for the increase in unrestricted net assets are the lower transfers to the street project funds, scaled back activity on the new cemetery, continued growth/addition in property values within the City, and continued diligence in the area of expenditure control. Restricted net assets declined by 20.6 percent to \$2.2 million mainly due to usage of fund balance in the Street Funds.

City of Howell

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole (Continued)

The net assets of our business-type activities increased by 1.6 percent or to \$29.3 million during the fiscal year. This increase is due to revenues exceeding expenses and continued investment in infrastructure (water and sewer mains) without additional debt being incurred.

The following table displays the City's changes in net assets.

Table 2

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total Primary Government	Total Primary Government
	2005	2004	2005	2004	2005	2004
Revenue						
Program revenue:						
Charges for services	\$ 1,099,916	\$ 1,172,933	\$ 3,157,392	\$ 3,072,564	\$ 4,257,308	\$ 4,245,497
Operating grants and contributions	901,754	880,908	-	-	901,754	880,908
Capital grants and contributions	179,655	743,728	959,616	1,103,703	1,139,271	1,847,431
General revenue:						
Property taxes	5,042,691	5,275,208	-	-	5,042,691	5,275,208
State-shared revenue	867,744	892,382	-	-	867,744	892,382
Other	303,851	624,270	18,394	10,612	322,245	634,882
Investment earnings	127,135	89,134	45,977	40,109	173,112	129,243
Total revenue	8,522,746	9,678,563	4,181,379	4,226,988	12,704,125	13,905,551
Program Expenses						
General government	2,069,478	1,283,291	-	-	2,069,478	1,283,291
Public safety	2,504,009	2,628,068	-	-	2,504,009	2,628,068
Public works	2,758,986	2,805,356	-	-	2,758,986	2,805,356
Community and economic development	273,059	388,261	-	-	273,059	388,261
Recreation and culture	1,195,748	1,147,987	-	-	1,195,748	1,147,987
Interest on long-term debt	127,312	145,376	-	-	127,312	145,376
Water	-	-	1,679,472	1,657,486	1,679,472	1,657,486
Sewer	-	-	1,985,496	1,775,224	1,985,496	1,775,224
Total program expenses	8,928,592	8,398,339	3,664,968	3,432,710	12,593,560	11,831,049
Excess before transfers	(405,846)	1,280,224	516,411	794,278	110,565	2,074,502
Transfers	62,852	61,595	(62,852)	(61,595)	-	-
Change in Net Assets	\$ (342,994)	\$ 1,341,819	\$ 453,559	\$ 732,683	\$ 110,565	\$ 2,074,502

City of Howell

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole (Continued)

The City's total net assets increased by .23 percent or \$111,000 over the fiscal year.

Governmental Activities

Table 3 presents the cost of each of the City's four largest programs: public safety, public works, community and economic development, and recreation and culture. The table also presents each program's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

Table 3

	Total Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2005	Net Cost of Services 2004
Public safety	\$ 2,504,009	\$ 2,628,068	\$ 2,102,610	\$ 2,200,549
Public works	2,758,986	2,805,356	1,867,656	1,382,231
Community and economic development	273,059	388,261	232,666	315,128
Recreation and culture	1,195,748	1,147,987	651,126	627,532
All others	2,196,790	1,428,667	1,893,209	1,075,330
Total	<u><u>\$ 8,928,592</u></u>	<u><u>\$ 8,398,339</u></u>	<u><u>\$ 6,747,267</u></u>	<u><u>\$ 5,600,770</u></u>

- The cost of all governmental activities this year was \$8.9 million.
- The amount that City taxpayers paid for these activities through City taxes was only \$5.0 million.
- Some of the cost was paid by the beneficiaries of the program's activities (\$1.1 million), or by other governments and organizations that subsidized certain programs with grants and contributions (\$1.1 million).
- The City paid for the \$6.7 million "public benefit" portion with \$5.0 million in taxes and with other revenues.

City of Howell

Management's Discussion and Analysis (Continued)

Business-type Activities

Operating revenues of the City's business-type activities, water and sewer, stayed relatively stable (\$3.2 million for 2005 and \$3.1 million for 2004) and operating expenses also remained relatively stable. The City experienced change in net assets of \$454,000 in its water and sewer operations. Factors contributing to these results included:

- Capital contributions received due to the continued growth of the system without expending additional resources.

The City's Funds

As the City completed the year, its governmental funds (see the balance sheet presented on pages 17 and 18) reported a combined fund balance of \$6.4 million, or \$501,000 below last year. Included in this year's total change in fund balance is a minimal decrease of \$84,000 in the City's General Fund. The primary reasons for the general fund's use of fund balance include the following:

- Additional energy costs and drain expenditures.
- Decreased transfer from the cemetery funds in support of cemetery activities.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City budget several times. The first amendments were adopted in conjunction with the fiscal year 2004-2005 budget. These appropriations were to adjust the original budget when departments submitted estimated year-end figures that exceeded current budgeted amounts. The second amendments adopted allowed for appropriations to prevent budget overruns.

Even with these adjustments, actual expenditures were \$0.8 million below final budget amounts. The most significant positive variances resulted from lower than anticipated transfers to the recreational fund and lower than anticipated costs for public safety and treasury departments (\$0.2million).

City of Howell

Management's Discussion and Analysis (Continued)

Capital Asset and Debt Administration

At the end of the 2005 fiscal year, the City had invested approximately \$41 million in a broad range of capital assets, including police equipment, buildings and improvements, computer equipment and software, parks and recreational facilities, roads, and water and sewer lines (see Table 4 below).

Table 4

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total Primary Government	Total Primary Government
	2005	2004	2005	2004	2005	2004
Land	\$ 1,035,214	\$ 1,035,214	\$ 430,064	\$ 430,064	\$ 1,465,278	\$ 1,465,278
Land improvements	1,606,883	1,498,695	-	-	1,606,883	1,498,695
Buildings and improvements	6,334,133	4,393,361	23,486,020	23,421,522	29,820,153	27,814,883
Furniture and equipment	3,824,471	3,709,038	1,146,356	1,125,780	4,970,827	4,834,818
Construction-in-progress	1,103,401	864,459	761,833	1,458,502	1,865,234	2,322,961
Infrastructure:						
Roads and sidewalks	13,403,166	13,170,127	-	-	13,403,166	13,170,127
Water systems	-	-	4,495,796	4,094,507	4,495,796	4,094,507
Sewer systems	-	-	5,387,996	4,623,812	5,387,996	4,623,812
Subtotal assets	27,307,268	24,670,894	35,708,065	35,154,187	63,015,333	59,825,081
Accumulated depreciation	12,020,584	10,792,951	9,678,149	8,852,778	21,698,733	19,645,729
Net capital assets	\$ 15,286,684	\$ 13,877,943	\$ 26,029,916	\$ 26,301,409	\$ 41,316,600	\$ 40,179,352

The year's major additions to capital assets included:

- Completion of the City Hall Reconstruction project - \$1.6 million
- Construction-in-progress for the Michigan Ave Streetscape - \$101,000
- Improvements to the Fowler Street Pump Station - \$200,000
- Completion of lighting and restroom facilities at Page Field - \$56,000
- Construction-in-progress for the new cemetery - \$78,000
- Construction-in-progress for the Loop Road - \$257,000
- Equipment pool vehicles - \$133,000
- Pavement Reconstruction of City Streets - \$200,000
- Construction-in-Progress on Isbell St including water & sewer lines - \$382,000.

City of Howell

Management's Discussion and Analysis (Continued)

Debt

At year end the City had \$3.85 million in bonds and notes outstanding. This represents a \$1.34 million increase from the previous year (see Table 5 below). The City issued \$1.7 million in bonds during the current year in order to fund the City Hall Reconstruction. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

Table 5

	Governmental Activities	Governmental Activities	Business-type Activities	Business-type Activities	Total Primary Government	Total Primary Government
	2005	2004	2005	2004	2005	2004
General obligations and special assessments	\$ 3,850,000	\$ 2,505,000	\$ -	\$ -	\$ 3,850,000	\$ 2,505,000
Revenue bonds	-	-	1,458,814	1,671,117	1,458,814	1,671,117
Total	<u>\$ 3,850,000</u>	<u>\$ 2,505,000</u>	<u>\$ 1,458,814</u>	<u>\$ 1,671,117</u>	<u>\$ 5,308,814</u>	<u>\$ 4,176,117</u>

Economic Factors and Next Year's Budget and Rates

The City's budget for the 2006 fiscal year is balanced with no property tax rate increase. Estimated property tax revenues are expected to increase by approximately \$277,000 from the prior year due mainly to added tax base from new development. During the 2005 fiscal year the City experienced continued reductions in state revenue sharing. Given current economic conditions, the adopted budget forecasts slight reductions in this revenue source for the 2006 fiscal year.

Total expenses in the general fund for the 2006 fiscal year are estimated to be \$7.7 million. Included in those costs are the general fund's contributions to support the streets program (\$111,000) and the rubbish and garbage collection program (\$455,000) and the recreation program (\$589,000).

Revenues in the water and sewer funds have been increased by a 2.0 percent COLA adjustment in accordance with the guidelines in the water and sewer ordinance.

City of Howell

Management's Discussion and Analysis (Continued)

Contacting the City's Financial Management

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Finance Director's office at the City of Howell, 611 E. Grand River Avenue, Howell, Michigan, 48843.

City of Howell

Statement of Net Assets June 30, 2005

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 6,857,662	\$ 1,985,892	\$ 8,843,554	\$ 592,097
Receivables (Note 4):				
Taxes	24,901	-	24,901	-
Special assessments	487,656	-	487,656	-
Accounts	132,507	435,277	567,784	-
Mortgage notes	-	-	-	43,726
Inventories	-	140,950	140,950	-
Internal balances	228,852	(228,852)	-	-
Due from other governmental units	623,806	-	623,806	250
Prepaid costs and other assets	286,003	20,421	306,424	2,843
Land held for sale	306,497	-	306,497	-
Restricted assets (Note 8):				
Customer deposits	-	6,707	6,707	-
Bond reserve	-	347,799	347,799	-
Replacement and improvement account	-	2,204,714	2,204,714	-
Total restricted assets	-	2,559,220	2,559,220	-
Investment in joint venture (Note 14)	407,118	-	407,118	-
Capital assets - Net (Note 5)	<u>15,286,684</u>	<u>26,029,916</u>	<u>41,316,600</u>	<u>151,652</u>
Total assets	24,641,686	30,942,824	55,584,510	790,568
Liabilities				
Accounts payable	856,972	81,876	938,848	17,667
Accrued and other liabilities	350,354	98,233	448,587	10,193
Due to other governmental units	115,489	-	115,489	309,218
Noncurrent liabilities (Note 7):				
Due within one year	455,000	222,302	677,302	146,657
Due in more than one year	<u>3,395,000</u>	<u>1,236,512</u>	<u>4,631,512</u>	<u>688,709</u>
Total liabilities	5,172,815	1,638,923	6,811,738	1,172,444
Net Assets				
Invested in capital assets - Net of related debt	11,436,684	24,571,102	36,007,786	126,286
Restricted:				
Bond reserve	-	347,799	347,799	-
Replacement and improvement	-	2,204,714	2,204,714	-
Streets	272,399	-	272,399	-
Capital improvements	133,479	-	133,479	-
Debt service	1,177,576	-	1,177,576	-
Law enforcement	7,102	-	7,102	-
Cemetery	472,436	-	472,436	-
Construction code activities	3,763	-	3,763	-
Other purposes	153,212	-	153,212	65,165
Unrestricted (deficit)	<u>5,812,220</u>	<u>2,180,286</u>	<u>7,992,506</u>	<u>(573,327)</u>
Total net assets (deficits)	<u>\$ 19,468,871</u>	<u>\$ 29,303,901</u>	<u>\$ 48,772,772</u>	<u>\$ (381,876)</u>

City of Howell

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 2,069,478	\$ 303,581	\$ -	\$ -
Public safety	2,504,009	345,204	56,195	-
Public works	2,758,986	148,010	594,260	149,060
Community and economic development	273,059	9,798	-	30,595
Recreation and culture	1,195,748	293,323	251,299	-
Interest on long-term debt	127,312	-	-	-
Total governmental activities	8,928,592	1,099,916	901,754	179,655
Business-type activities - Water and sewer:				
Water Supply System	1,679,472	1,729,386	-	245,658
Sewage Disposal System	1,985,496	1,428,006	-	713,958
Total business-type activities	3,664,968	3,157,392	-	959,616
Total primary government	<u>\$ 12,593,560</u>	<u>\$ 4,257,308</u>	<u>\$ 901,754</u>	<u>\$ 1,139,271</u>
Component units:				
Downtown Development Authority	\$ 292,411	\$ 700	\$ -	\$ 23,247
Tax Increment Financing Authority	248,783	-	-	-
Economic Development Corporation	-	-	-	-
Brownfield Redevelopment Authority	1,519	-	-	-
Total component units	<u>\$ 542,713</u>	<u>\$ 700</u>	<u>\$ -</u>	<u>\$ 23,247</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Franchise fees				
Miscellaneous				
Transfers				
Total general revenues, special items, and transfers				
Change in Net Assets (Deficits)				
Net Assets (Deficits) - Beginning of year				
Net Assets (Deficits) - End of year				

Statement of Activities
Year Ended June 30, 2005

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,765,897)	\$ -	\$ (1,765,897)	\$ -
(2,102,610)	-	(2,102,610)	-
(1,867,656)	-	(1,867,656)	-
(232,666)	-	(232,666)	-
(651,126)	-	(651,126)	-
(127,312)	-	(127,312)	-
(6,747,267)	-	(6,747,267)	-
-	295,572	295,572	-
-	156,468	156,468	-
-	452,040	452,040	-
(6,747,267)	452,040	(6,295,227)	-
-	-	-	(268,464)
-	-	-	(248,783)
-	-	-	-
-	-	-	(1,519)
-	-	-	(518,766)
5,042,691	-	5,042,691	686,825
867,744	-	867,744	-
127,135	45,977	173,112	6,575
99,227	-	99,227	-
204,624	18,394	223,018	17,718
62,852	(62,852)	-	-
6,404,273	1,519	6,405,792	711,118
(342,994)	453,559	110,565	192,352
19,811,865	28,850,342	48,662,207	(574,228)
\$ 19,468,871	\$ 29,303,901	\$ 48,772,772	\$ (381,876)

	Major Capital Project Funds		
	General	Isbell Street Fund	City Hall Construction Fund
Assets			
Cash and investments	\$ 2,124,991	\$ 696,082	\$ 236,041
Receivables (Note 4):			
Taxes	24,901	-	-
Special assessments	7,211	-	-
Accounts	108,662	-	-
Due from other funds (Note 6)	29,917	209,671	-
Due from other governmental units	504,279	-	-
Prepaid costs and other assets	266,233	-	-
Land held for sale	-	-	-
Total assets	<u>\$ 3,066,194</u>	<u>\$ 905,753</u>	<u>\$ 236,041</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 124,785	\$ 302,104	\$ 102,562
Accrued and other liabilities	35,438	-	-
Due to other funds	38,398	278	-
Due to other governmental units	115,489	-	-
Deferred revenue	81,328	-	-
Total liabilities	395,438	302,382	102,562
Fund Balances			
Reserved for:			
Debt service	-	-	-
Law enforcement	5,103	-	-
Prepaid expenses	266,233	-	-
Long-term advances	2,848	-	-
Land for sale	-	-	-
Construction code activities	3,763	-	-
Donations	1,263	-	-
Capital projects	-	-	133,479
Cemetery	-	-	-
Unreserved (major funds)	2,391,546	603,371	-
Unreserved (nonmajor funds):			
Special revenue	-	-	-
Capital projects	-	-	-
Total fund balances	<u>2,670,756</u>	<u>603,371</u>	<u>133,479</u>
Total liabilities and fund balances	<u>\$ 3,066,194</u>	<u>\$ 905,753</u>	<u>\$ 236,041</u>

**Governmental Funds
Balance Sheet
June 30, 2005**

	Major Debt Service Funds			
	M-59 Utilities SAD Debt Retirement	1995 Special Assessment	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 137,651	\$ 478,152	\$ 2,358,801	\$ 6,031,718
Receivables (Note 4):				
Taxes	-	-	-	24,901
Special assessments	215,492	264,953	-	487,656
Accounts	-	-	22,339	131,001
Due from other funds (Note 6)	-	-	112,447	352,035
Due from other governmental units	-	-	117,817	622,096
Prepaid costs and other assets	-	-	16,371	282,604
Land held for sale	-	-	306,497	306,497
Total assets	\$ 353,143	\$ 743,105	\$ 2,934,272	\$ 8,238,508
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ -	\$ -	\$ 319,184	\$ 848,635
Accrued and other liabilities	-	-	15,550	50,988
Due to other funds	-	-	189,629	228,305
Due to other governmental units	-	-	-	115,489
Deferred revenue	215,491	264,954	-	561,773
Total liabilities	215,491	264,954	524,363	1,805,190
Fund Balances				
Reserved for:				
Debt service	137,652	478,151	-	615,803
Law enforcement	-	-	7,102	12,205
Prepaid expenses	-	-	-	266,233
Long-term advances	-	-	-	2,848
Land for sale	-	-	306,497	306,497
Construction code activities	-	-	-	3,763
Donations	-	-	-	1,263
Capital Projects	-	-	-	133,479
Cemetery	-	-	472,436	472,436
Unreserved (major funds)	-	-	-	2,994,917
Unreserved (nonmajor funds):				
Special Revenue	-	-	1,259,981	1,259,981
Capital Projects	-	-	363,893	363,893
Total fund balances	137,652	478,151	2,409,909	6,433,318
Total liabilities and fund balances	\$ 353,143	\$ 743,105	\$ 2,934,272	\$ 8,238,508

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	\$ 14,431,346
Investment in joint venture not reported in the funds	407,118
Special assessment and other receivables are expected to be collected over several years, and are not available to pay for current year expenditures	561,773
Accumulated employee paid-time off is recorded when earned in the statement of activities	(231,678)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(3,891,226)
Internal Service Funds are included as part of governmental activities	1,758,220
Net assets of governmental activities	\$ 19,468,871

City of Howell

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2005

	General	Isbell Street Fund	City Hall Construction Fund
Revenue			
Property taxes	\$ 5,042,691	\$ -	\$ -
Special assessments	-	-	-
Licenses and permits	239,650	-	-
Federal sources	38,539	-	-
State and local sources	873,930	-	-
Charges for services	97,572	-	-
Fines and forfeitures	94,056	-	-
Interest income	60,258	-	-
Investment and rental income	168,107	469	3,262
Other revenue	270,077	-	-
	<hr/>	<hr/>	<hr/>
Total revenue	6,884,880	469	3,262
Expenditures			
Current:			
General government	2,007,881	-	-
Public safety	2,460,640	-	-
Public works	624,005	-	-
Recreation and culture	149,733	-	-
Other expense	-	103	64,262
Capital outlay	86,557	182,319	1,505,521
Debt service:			
Principal retirement	-	-	-
Interest and fiscal charges	-	-	-
	<hr/>	<hr/>	<hr/>
Total expenditures	5,328,816	182,422	1,569,783
	<hr/>	<hr/>	<hr/>
Excess of Revenue Over (Under) Expenditures	1,556,064	(181,953)	(1,566,521)
Other Financing Sources (Uses)			
Proceeds from debt	-	-	1,700,000
Transfers in (Note 6)	18,889	584,518	-
Transfers out (Note 6)	(1,659,242)	-	-
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(1,640,353)	584,518	1,700,000
	<hr/>	<hr/>	<hr/>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(84,289)	402,565	133,479
	<hr/>	<hr/>	<hr/>
Fund Balances - Beginning of year	2,755,045	200,806	-
	<hr/>	<hr/>	<hr/>
Fund Balances - End of year	<u>\$ 2,670,756</u>	<u>\$ 603,371</u>	<u>\$ 133,479</u>

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances (Continued) Year Ended June 30, 2005

	M-59 Utilities SAD Debt Retirement	1995 Special Assessment	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue				
Property taxes	\$ -	\$ -	\$ -	\$ 5,042,691
Special assessments	26,937	70,393	-	97,330
Licenses and permits	-	-	-	239,650
Federal sources	-	-	-	38,539
State and local sources	-	-	602,851	1,476,781
Charges for services	-	-	616,809	714,381
Fines and forfeitures	-	-	-	94,056
Interest income	15,364	21,769	12,082	109,473
Investment and rental income	863	6,653	32,722	212,076
Other revenue	-	-	189,179	459,256
Total revenue	43,164	98,815	1,453,643	8,484,233
Expenditures				
Current:				
General government	-	-	-	2,007,881
Public safety	-	-	2,875	2,463,515
Public works	-	-	1,652,660	2,276,665
Recreation and culture	-	-	936,339	1,086,072
Other expense	-	-	17,497	81,862
Capital outlay	-	-	532,471	2,306,868
Debt service:				
Principal retirement	35,000	140,000	180,000	355,000
Interest and fiscal charges	19,758	42,495	65,059	127,312
Total expenditures	54,758	182,495	3,386,901	10,705,175
Excess of Revenue Over (Under) Expenditures	(11,594)	(83,680)	(1,933,258)	(2,220,942)
Other Financing Sources (Uses)				
Proceeds from debt	-	-	-	1,700,000
Transfers in (Note 6)	-	-	1,857,267	2,460,674
Transfers out (Note 6)	-	-	(781,822)	(2,441,064)
Total other financing sources (uses)	-	-	1,075,445	1,719,610
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(11,594)	(83,680)	(857,813)	(501,332)
Fund Balances - Beginning of year	149,246	561,831	3,267,722	6,934,650
Fund Balances - End of year	\$ 137,652	\$ 478,151	\$ 2,409,909	\$ 6,433,318

City of Howell

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2005

Net Change in Fund Balances - Total governmental funds \$ (501,332)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation 1,452,735

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (92,538)

Bond proceeds are reflected as other financing sources in the fund but not in the statement of activities (1,700,000)

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 364,609

Change in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities (38,362)

Internal Service Funds are also included as governmental activities 171,894

Change in Net Assets of Governmental Activities \$ (342,994)

Proprietary Funds Statement of Net Assets June 30, 2005

	Water Supply System	Sewage Disposal System	Total	Internal Service Funds
Assets				
Current assets:				
Cash and investments	\$ 1,382,099	\$ 603,793	\$ 1,985,892	\$ 825,944
Receivables (Note 4)	241,394	193,883	435,277	1,506
Due from other funds (Note 6)	-	-	-	106,286
Due from other governmental units	-	-	-	1,710
Inventories	140,950	-	140,950	-
Prepaid costs and other assets	11,396	9,025	20,421	3,399
Total current assets	1,775,839	806,701	2,582,540	938,845
Noncurrent assets:				
Restricted assets:				
Customer deposits	6,707	-	6,707	-
Bond reserve	347,799	-	347,799	-
Replacement and improvement account	239,819	1,964,895	2,204,714	-
Net capital assets	9,246,838	16,783,078	26,029,916	855,338
Total noncurrent assets	9,841,163	18,747,973	28,589,136	855,338
Total assets	11,617,002	19,554,674	31,171,676	1,794,183
Liabilities				
Current liabilities:				
Accounts payable	28,656	53,220	81,876	8,337
Accrued and other liabilities	38,398	59,835	98,233	26,462
Due to other funds	182,986	45,866	228,852	1,164
Current portion of long-term debt	222,302	-	222,302	-
Total current liabilities	472,342	158,921	631,263	35,963
Noncurrent liabilities:				
Long-term debt - Net of current portion	1,236,512	-	1,236,512	-
Total noncurrent liabilities	1,236,512	-	1,236,512	-
Total liabilities	1,708,854	158,921	1,867,775	35,963
Net Assets				
Investment in capital assets - Net of related debt	7,788,024	16,783,078	24,571,102	855,338
Restricted:				
Bond reserve	347,799	-	347,799	-
Replacement and improvement	239,819	1,964,895	2,204,714	-
Unrestricted	1,532,506	647,780	2,180,286	902,882
Total net assets	<u>\$ 9,908,148</u>	<u>\$ 19,395,753</u>	<u>\$ 29,303,901</u>	<u>\$ 1,758,220</u>

City of Howell

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2005

	Water Supply System	Sewage Disposal System	Total	Internal Service Funds
Operating Revenue				
Charges for services	\$ 1,729,386	\$ 1,358,300	\$ 3,087,686	\$ 859,179
Miscellaneous	18,394	69,706	88,100	19,017
Total operating revenue	1,747,780	1,428,006	3,175,786	878,196
Operating Expenses				
Payroll	529,477	645,448	1,174,925	189,610
Fringe benefits	244,028	87,788	331,816	92,180
Operating supplies	131,683	212,838	344,521	118,812
Professional services	72,541	96,143	168,684	15,802
Communications	6,187	10,258	16,445	4,870
Insurance	21,933	29,444	51,377	46,549
Public utilities	134,037	148,917	282,954	14,576
Plant and equipment maintenance	44,830	60,615	105,445	32,362
Equipment rental	79,898	65,769	145,667	13,963
Depreciation	266,981	558,390	825,371	224,464
Miscellaneous	10,175	14,577	24,752	2,858
Overhead	55,310	55,309	110,619	29,936
Other expenses	-	-	-	2,075
Total operating expenses	1,597,080	1,985,496	3,582,576	788,057
Operating Income (Loss)	150,700	(557,490)	(406,790)	90,139
Nonoperating Revenue (Expenses)				
Interest income	21,790	24,187	45,977	10,826
Sale of vehicles and equipment	-	-	-	27,687
Interest and fiscal charges	(82,392)	-	(82,392)	-
Total nonoperating revenue (expenses)	(60,602)	24,187	(36,415)	38,513
Income (Loss) - Before operating transfers	90,098	(533,303)	(443,205)	128,652
Other Financing Uses - Transfers (Note 6)	(52,660)	(10,192)	(62,852)	43,242
Net Income (Loss) - Before capital contributions	37,438	(543,495)	(506,057)	171,894
Capital Contributions	245,658	713,958	959,616	-
Change in Net Assets	283,096	170,463	453,559	171,894
Net Assets - Beginning of year	9,625,052	19,225,290	28,850,342	1,586,326
Net Assets - End of year	<u>\$ 9,908,148</u>	<u>\$ 19,395,753</u>	<u>\$ 29,303,901</u>	<u>\$ 1,758,220</u>

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2005

	Business-type Activities			Governmental Activities
	Sewage Disposal System		Total	Internal Service Funds
	Water Supply System			
Cash Flows from Operating Activities				
Receipts from customers	\$ 1,721,860	\$ 1,416,237	\$ 3,138,097	\$ -
Receipts from other funds	-	-	-	885,468
Payments to suppliers	(532,339)	(620,675)	(1,153,014)	(257,156)
Payments to employees	(773,505)	(733,236)	(1,506,741)	(281,790)
Internal activity - Payments (to) from other funds	141,197	104,715	245,912	(109,984)
Net cash provided by operating activities	557,213	167,041	724,254	236,538
Cash Flows from Noncapital Financing Activities				
Operating transfers to/from other funds	(52,660)	(10,192)	(62,852)	43,242
Cash Flows from Capital and Related Financing Activities				
Capital charges and connection fees	245,658	713,958	959,616	-
Purchase of capital assets	(234,031)	(319,847)	(553,878)	(202,201)
Proceeds from sale of capital assets	-	-	-	49,418
Principal and interest paid on capital debt	(294,695)	-	(294,695)	-
Net cash provided by (used in) capital and related financing activities	(283,068)	394,111	111,043	(152,783)
Cash Flows from Investing Activities				
Interest received on investments	21,790	24,187	45,977	10,826
Purchase of investment securities	(5,647)	(7,701)	(13,348)	(10,686)
Net cash provided by investing activities	16,143	16,486	32,629	140
Net Increase in Cash and Cash Equivalents	237,628	567,446	805,074	127,137
Cash and Cash Equivalents - Beginning of year	1,390,997	1,556,913	2,947,910	40,722
Cash and Cash Equivalents - End of year	<u>\$ 1,628,625</u>	<u>\$ 2,124,359</u>	<u>\$ 3,752,984</u>	<u>\$ 167,859</u>
Balance Sheet Classification of Cash and Cash Equivalents				
Cash and investments	\$ 1,382,099	\$ 603,793	\$ 1,985,892	\$ 825,944
Restricted cash and investments (Note 3)	594,325	1,964,895	2,559,220	-
Less amounts classified as investments (Note 3)	(347,799)	(444,329)	(792,128)	(825,944)
Total cash and cash equivalents	<u>\$ 1,628,625</u>	<u>\$ 2,124,359</u>	<u>\$ 3,752,984</u>	<u>\$ -</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ 150,700	\$ (557,490)	\$ (406,790)	\$ 90,139
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	266,981	558,390	825,371	224,464
Changes in assets and liabilities:				
Receivables	(25,920)	(11,769)	(37,689)	7,100
Other assets	8,831	150,039	158,870	(75,401)
Accounts payable	(4,285)	6,212	1,927	(1,585)
Accrued and other liabilities	160,906	21,659	182,565	(8,179)
Net cash provided by operating activities	<u>\$ 557,213</u>	<u>\$ 167,041</u>	<u>\$ 724,254</u>	<u>\$ 236,538</u>

City of Howell

Fiduciary Funds Statement of Net Assets June 30, 2005

	Pension and Other Employee Benefits - Employee Healthcare Fund	Agency Funds
Assets - Cash and investments (Note 3)	\$ 152,575	\$ 41,718
Liabilities		
Accounts payable	-	39,397
Due to other governmental units	-	2,321
Total liabilities	-	<u>\$ 41,718</u>
Net Assets - Held in trust for retiree healthcare	<u>\$ 152,575</u>	

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2005

	Pension and Other Employee Benefits - Employee Healthcare Fund
Additions	
Investment income:	
Interest and dividends	\$ 2,896
Net Increase	2,896
Net Assets Held in Trust for Retiree Healthcare	
Beginning of year	149,679
End of year	<u>\$ 152,575</u>

City of Howell

Component Units Statement of Net Assets June 30, 2005

	Downtown Development Authority	Tax Increment Financing Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Totals
Assets					
Cash and investments (Note 3)	\$ 403,258	\$ 188,839	\$ -	\$ -	\$ 592,097
Due from other governmental units	-	-	250	-	250
Mortgage notes receivable	43,726	-	-	-	43,726
Prepays	2,843	-	-	-	2,843
Net capital assets	<u>151,652</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>151,652</u>
Total assets	601,479	188,839	250	-	790,568
Liabilities					
Accounts payable	11,098	6,569	-	-	17,667
Due to other governmental units	3,212	103,537	-	202,469	309,218
Accrued and other liabilities	7,493	2,700	-	-	10,193
Noncurrent liabilities:					
Due within one year	116,657	30,000	-	-	146,657
Due in more than one year	<u>463,709</u>	<u>225,000</u>	<u>-</u>	<u>-</u>	<u>688,709</u>
Total liabilities	<u>602,169</u>	<u>367,806</u>	<u>-</u>	<u>202,469</u>	<u>1,172,444</u>
Net Assets					
Investment in capital assets -					
Net of related debt	126,286	-	-	-	126,286
Restricted	64,915	-	250	-	65,165
Unrestricted (deficit)	<u>(191,891)</u>	<u>(178,967)</u>	<u>-</u>	<u>(202,469)</u>	<u>(573,327)</u>
Total net assets	<u>\$ (690)</u>	<u>\$ (178,967)</u>	<u>\$ 250</u>	<u>\$ (202,469)</u>	<u>\$ (381,876)</u>

City of Howell

		Program Revenues		
	Expenses	Charges for Services	Operating Grants/ Contributions	Capital Grants/ Contributions
Downtown Development Authority	\$ 292,411	\$ 700	\$ -	\$ 23,247
Tax Increment Financing Authority	248,783	-	-	-
Economic Development Corporation	-	-	-	-
Brownfield Redevelopment Authority	1,519	-	-	-
Total governmental activities	<u>\$ 542,713</u>	<u>\$ 700</u>	<u>\$ -</u>	<u>\$ 23,247</u>

General revenues:

Property taxes

Interest

Miscellaneous

Total general revenues

Change in Net Assets (Deficit)

Net Assets (Deficits) - Beginning of year

Net Assets (Deficits) - End of year

**Component Units
Statement of Activities
Year Ended June 30, 2005**

Net (Expense) Revenue and Changes in Net Assets				
Downtown Development Authority	Tax Increment Financing Authority	Economic Development Corporation	Brownfield Redevelopment Authority	Total
\$ (268,464)	\$ -	\$ -	\$ -	\$ (268,464)
-	(248,783)	-	-	(248,783)
-	-	-	-	-
-	-	-	(1,519)	(1,519)
(268,464)	(248,783)	-	(1,519)	(518,766)
386,825	300,000	-	-	686,825
4,472	2,103	-	-	6,575
17,718	-	-	-	17,718
409,015	302,103	-	-	711,118
140,551	53,320	-	(1,519)	192,352
(141,241)	(232,287)	250	(200,950)	(574,228)
<u>\$ (690)</u>	<u>\$ (178,967)</u>	<u>\$ 250</u>	<u>\$ (202,469)</u>	<u>\$ (381,876)</u>

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Howell (the City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Howell:

Reporting Entity

The City of Howell is governed by an elected seven-member council. The accompanying financial statements present the City and its component units; entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units - The Building Authority is governed by a Board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to acquire, finance, and construct the City's public buildings.

Discretely Presented Component Units - The following component units are reported within the component units column in the statement of net assets. They are reported in a separate column to emphasize that they are legally separate from the City. Separate financial statements for the component units are not available.

The Downtown Development Authority (DDA), was established for the purpose of revitalizing the downtown business district. The Authority's governing body, which consists of nine individuals, is appointed by the City's Mayor, with the approval of City Council. In addition, the Authority's budget is subject to approval by the City Council. The DDA may issue debt payable solely from tax increment revenues. The full faith and credit of the City may be given for the debt of the DDA.

The Tax Increment Financing Authority (TIFA), was established for the purpose of funding the infrastructure of the City's industrial park as an incentive to bring manufacturers into the City. The Authority's governing body, which consists of nine individuals, is appointed by the City's Mayor with the approval of City Council.

Note 1 - Summary of Significant Accounting Policies (Continued)

The Economic Development Corporation was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The Corporation's governing body, which consists of nine individuals, is appointed by the City's Mayor with the approval of City Council.

The Local Development Financing Authority was established pursuant to P.A. 281 of 1986 to prevent conditions of unemployment, promote economic growth, and authorize the acquisition and disposal of interests in real and personal property. The Authority's governing body, which consists of ten individuals, is appointed by the City Council. In addition, the Authority's annual budget is subject to review and approval by the City Council. There has been no activity for this Authority.

The Brownfield Redevelopment Authority was created to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas to promote revitalization within the Brownfield Redevelopment Zone. The Brownfield governing body, which consists of seven individuals, is selected by the City Council. In addition, their budgets are subject to approval by the City Council.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Note I - Summary of Significant Accounting Policies (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year-end. Interest income on special assessments receivable is not accrued until its due date. All other revenue items are considered to be available only when cash is received by the City.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Isbell Street Fund accounts for the costs incurred for the reconstruction of the street located within the City. The project involves the reconstruction of the road, water main lines, sanitary, and storm sewer lines.

Note I - Summary of Significant Accounting Policies (Continued)

The City Hall Construction Fund is used to account for the costs involved in the renovating, improving, furnishing, and equipping the city hall and police department facilities. The City issued capital improvement bonds in the amount of \$1.7 million during February 2005 in order to finance the project.

The M-59 Utilities SAD Retirement Fund is used to account for the annual payment of principal, interest, and expenses in connection with the M-59 district debt. In 2000, the City bonded for the payment of expenses related to the installation of water and sewer lines in the district, and the district is specially assessed to fund the payments.

The 1995 Special Assessment Fund is used to account for the annual payment of principal, interest, and expenses in connection with the Thompson Lake District bond debt. In 1995, the City bonded for payment of expenses related to the installation of water and sewer lines in the district and the district is specially assessed to fund the payments.

The City reports the following major proprietary funds:

The Water Supply System Fund is used to account for the results of operations that provide water services, including water treatment and distribution, to residential, commercial, and industrial customers. The services of the water treatment plant are financed primarily by a user charge for the provision of those services. In addition to capturing the results of operations, the water fund also accounts for the annual payment of principal, interest, and expenses related to the 1998 Water Revenue and Revenue Refunding bonds issued to construct a new water plant. A water debt fee is charged to utility customers to fund the water bond payments.

The Sewage Disposal System Fund is used to account for the results of operations that provide sewer services, including wastewater collection and treatment, to residential, commercial, and industrial customers. As part of an agreement with Marion Township, contractual sewer services are provided to a portion of those township residents as well. The services of the wastewater treatment plant are financed primarily by a user charge for the provision of those services.

Additionally, the City reports the following fund types:

Internal Service Funds account for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Note I - Summary of Significant Accounting Policies (Continued)

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, and/or other funds. These include the Pension and Other Employee Benefits Fund and the agency funds. The Pension and Other Employee Benefits Fund is accounted for like a proprietary fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The Public Employee Healthcare Fund is a pension and other employee benefits fund which accounts for the activities of providing healthcare benefit to retirees and employees of the City in the future.

Private sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989, for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water Supply System Fund and the Sewage Disposal System Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Note 1 - Summary of Significant Accounting Policies (Continued)

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on August 1 of the following year, at which time penalties and interest are assessed.

The City of Howell's 2004 ad valorem tax is levied and collectible on July 1, 2004 and is recognized as revenue in the year ended June 30, 2005, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2004 taxable valuation of Howell totaled \$352.2 million (a portion of which is abated and a portion of which is captured by the TIFA and DDA), on which ad valorem taxes levied consisted of 14.9443 mills for operating purposes. This resulted in \$4.9 million for operating purposes. These amounts are recognized in the General Fund financial statements as tax revenue.

All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve and replacement and improvement. These amounts have been classified as restricted assets.

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	10 to 25 years
Land improvements	10 to 25 years
Water and sewer distribution systems	40 to 50 years
Buildings and building improvements	5 to 30 years
Vehicles	3 to 5 years
Office furnishings	5 to 7 years
Other tools and equipment	3 to 7 years

Compensated Absences - It is the City's policy to permit employees to accumulate earned but unused paid-time off benefits. All paid-time off pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is also reported in the appropriate governmental funds.

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and special revenue funds. All annual appropriations lapse at fiscal year end. Charter provisions require department head budget submissions by the second Monday in February, submission of the budget to Council by the second Monday in April, and adoption of the budget by the third Monday in May.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Note 2 - Stewardship, Compliance, and Accountability (Continued)

Amounts encumbered for purchase orders, contracts, etc., are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

Fund Deficits - The City has accumulated fund and net asset deficits in the following fund:

Brownfield Redevelopment Authority	\$	202,469
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The Brownfield Redevelopment Authority will capture property taxes in the future to eliminate this deficit.

The Tax Increment Financing Authority has a net asset deficit of \$178,967; however, on the modified accrual basis of accounting, the fund balance is \$78,733 and no fund deficit exists.

The Downtown Development Authority has a net asset deficit of \$690; however, on the modified accrual basis of accounting, the fund balance is \$388,072 and no fund deficit exists.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of governments in Michigan.

Note 3 - Deposits and Investments (Continued)

The City has designated six banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment as allowed by the State statutory authority as listed above. The City's deposits and investment policies are in accordance with statutory authority.

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial credit risk of bank deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. At year end, the City had \$11,501,127 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of equity and debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 1,529,564	N/A	N/A
Interlocal agreement fund	\$ 1,068,679	N/A	N/A

Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	M-59 Utilities SAD Debt Retirement Fund	1995 Special Assessment Fund	Water Supply System	Sewage Disposal System	Nonmajor and Other Funds	Total
Receivables:							
Taxes	\$ 24,901	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,901
Special assessments	7,211	215,492	264,953	-	-	-	487,656
Accounts	108,662	-	-	241,394	193,883	23,845	567,784
Receivables	<u>\$ 140,774</u>	<u>\$ 215,492</u>	<u>\$ 264,953</u>	<u>\$ 241,394</u>	<u>\$ 193,883</u>	<u>\$ 23,845</u>	<u>\$ 1,080,341</u>

Note 5 - Capital Assets

Capital asset activity of the City's governmental, business-type, and component units was as follows:

	Balance July 1, 2004	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2005
Governmental Activities					
Capital assets not being depreciated:					
Land	\$ 1,035,214	\$ -	\$ -	\$ -	\$ 1,035,214
Construction-in-progress	864,459	(381,989)	620,931	-	1,103,401
Subtotal	1,899,673	(381,989)	620,931	-	2,138,615
Capital assets being depreciated:					
Land improvements	1,498,695	-	108,188	-	1,606,883
Roads and sidewalks	13,170,127	-	233,039	-	13,403,166
Buildings and improvements	4,393,361	381,989	1,558,783	-	6,334,133
Furniture and equipment	3,709,038	-	328,042	212,609	3,824,471
Subtotal	22,771,221	381,989	2,228,052	212,609	25,168,653
Accumulated depreciation:					
Land improvements	502,560	-	100,191	-	602,751
Roads and sidewalks	5,317,339	-	751,207	-	6,068,546
Buildings and improvements	2,177,459	-	188,399	-	2,365,858
Furniture and equipment	2,795,593	-	378,715	190,879	2,983,429
Subtotal	10,792,951	-	1,418,512	190,879	12,020,584
Net capital assets being depreciated	<u>11,978,270</u>	<u>381,989</u>	<u>809,540</u>	<u>21,730</u>	<u>13,148,069</u>
Net capital assets	<u>\$ 13,877,943</u>	<u>\$ -</u>	<u>\$ 1,430,471</u>	<u>\$ 21,730</u>	<u>\$ 15,286,684</u>

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2004	Reclassifications	Additions	Disposals and Adjustments	Balance June 30, 2005
Capital assets not being depreciated:					
Land	\$ 430,064	\$ -	\$ -	\$ -	\$ 430,064
Construction-in-progress	<u>1,458,502</u>	<u>(896,272)</u>	<u>199,603</u>	<u>-</u>	<u>761,833</u>
Subtotal	1,888,566	(896,272)	199,603	-	1,191,897
Capital assets being depreciated:					
Water and sewer distribution systems	8,718,319	896,272	269,201	-	9,883,792
Buildings and building improvements	23,421,522	-	64,498	-	23,486,020
Other tools and equipment	<u>1,125,780</u>	<u>-</u>	<u>20,576</u>	<u>-</u>	<u>1,146,356</u>
Subtotal	33,265,621	896,272	354,275	-	34,516,168
Accumulated depreciation:					
Water and sewer distribution systems	1,115,127	-	408,693	-	1,523,820
Buildings and building improvements	7,257,605	-	185,588	-	7,443,193
Other tools and equipment	<u>480,046</u>	<u>-</u>	<u>231,090</u>	<u>-</u>	<u>711,136</u>
Subtotal	<u>8,852,778</u>	<u>-</u>	<u>825,371</u>	<u>-</u>	<u>9,678,149</u>
Net capital assets being depreciated	<u>24,412,843</u>	<u>896,272</u>	<u>(471,096)</u>	<u>-</u>	<u>24,838,019</u>
Net capital assets	<u>\$ 26,301,409</u>	<u>\$ -</u>	<u>\$ (271,493)</u>	<u>\$ -</u>	<u>\$ 26,029,916</u>
Component Units					
Net capital assets - Land	<u>\$ 151,652</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 151,652</u>

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 225,251
Public safety	85,841
Public works	764,666
Community and economic development	21,954
Recreation and culture	96,336
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>224,464</u>

Total governmental activities	<u>\$ 1,418,512</u>
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Business-type activities:

Water	\$ 266,981
Sewer	<u>558,390</u>

Total business-type activities	<u>\$ 825,371</u>
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Construction Commitments - The City has active construction projects at year end. At year end, the City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Isbell Street reconstruction	\$ 259,230	\$ 796,303
Loop Road project	<u>182,422</u>	<u>816,220</u>
Total	<u>\$ 441,652</u>	<u>\$ 1,612,523</u>

Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due To/From Other Funds		
General Fund	Water Supply Fund	\$ 144
	Other Governmental Funds	<u>29,773</u>
	Total General Fund	29,917
Isbell Fund	Water Supply Fund	171,182
	Sewage Disposal Fund	<u>38,489</u>
	Total Isbell Fund	209,671
Other Nonmajor Governmental Funds	General Fund	14,262
	Other Governmental Funds	<u>98,185</u>
	Total Other Nonmajor Governmental Funds	112,447
Internal Service Funds	General Fund	24,136
	Isbell Fund	278
	Water Supply Fund	11,660
	Sewage Disposal Fund	7,377
	Other Nonmajor Governmental Funds	61,671
	Other Internal Service Funds	<u>1,164</u>
	Total Internal Service Funds	<u>106,286</u>
Total due to/from other funds		<u>\$ 458,321</u>

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

	Transfers Out				Total
	General Fund	Water Supply System	Sewage Disposal System	Other Nonmajor Governmental Funds	
Transfers in:					
General Fund	\$ -	\$ -	\$ -	\$ 18,889	\$ 18,889
Isbell Street Fund	552,815	-	-	31,703	584,518
Other nonmajor governmental funds	1,063,185	52,660	10,192	731,230	1,857,267
Internal service funds	43,242	-	-	-	43,242
Total	<u>\$ 1,659,242</u>	<u>\$ 52,660</u>	<u>\$ 10,192</u>	<u>\$ 781,822</u>	<u>\$ 2,503,916</u>

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the City is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Note 7 - Long-term Debt (Continued)

Long-term obligation activity can be summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds - 1995 General Obligation:					
Limited Tax Bonds	\$ 885,000	\$ -	\$ 125,000	\$ 760,000	\$ 135,000
Capital improvement bonds - 2005 Capital Improvement Series 2005	-	1,700,000	-	1,700,000	80,000
Special assessment bonds - 1995 Special Assessment (General Obligation Limited Tax) Bonds	850,000	-	140,000	710,000	145,000
Series 2000A	390,000	-	35,000	355,000	35,000
Building Authority Bonds - Series 1994	380,000	-	55,000	325,000	60,000
Total governmental activities	2,505,000	1,700,000	355,000	3,850,000	455,000
Business-type Activities					
Revenue and Revenue Refunding: Bonds - Series 1998	1,671,117	12,697	225,000	1,458,814	222,302
Component Units					
Capital Improvement Bond	500,000	-	40,000	460,000	40,000
1999 Development Bonds	305,000	-	50,000	255,000	60,000
Note payable	120,000	-	25,000	95,000	30,000
Land contract payable	41,188	-	15,822	25,366	16,657
Total component units activities	966,188	-	130,822	835,366	146,657
Total long-term debt obligations	\$ 5,142,305	\$ 1,712,697	\$ 710,822	\$ 6,144,180	\$ 823,959

Annual debt service requirements to maturity for the above bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Units		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 455,000	\$ 173,680	\$ 628,680	\$ 222,302	\$ 60,676	\$ 282,978	\$ 146,657	\$ 34,929	\$ 181,586
2007	460,000	145,809	605,809	227,302	51,511	278,813	143,709	28,652	172,361
2008	485,000	122,003	607,003	237,302	42,150	279,452	145,000	22,181	167,181
2009	510,000	96,704	606,704	247,302	32,400	279,702	120,000	15,918	135,918
2010	535,000	70,060	605,060	257,302	22,000	279,302	50,000	9,897	59,897
2011-2015	715,000	207,972	922,972	267,304	11,200	278,504	230,000	19,014	249,014
2016-2020	690,000	84,652	774,652	-	-	-	-	-	-
Total	\$ 3,850,000	\$ 900,880	\$ 4,750,880	\$ 1,458,814	\$ 219,937	\$ 1,678,751	\$ 835,366	\$ 130,591	\$ 965,957

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Business-type Activities
Customer deposits	\$ 6,707
Revenue bond restrictions:	
Bond reserve	347,799
Capital replacement restrictions:	
Replacement and improvement account	<u>2,204,714</u>
Total restricted assets	<u><u>\$ 2,559,220</u></u>

Customer Deposits - Customer deposits represent amounts received from water customers residing in rental units.

Bond Reserve - The System is required to maintain an account to be used solely for the payment of principal and interest when there would otherwise be default.

Replacement and Improvement - These amounts are to be used solely for the purpose of making major repairs and replacements to the System.

Net assets of the enterprise funds have been restricted for the bond reserve and the replacement and improvement account. Since the customer deposits are recorded as a liability equal to the restricted assets, net assets have not been restricted for this amount.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits and participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to general and auto liability, auto physical damage, and property loss claims and the Michigan Municipal League Workers' Compensation Fund for workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the Authority) risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority which the Authority uses to pay claims up to the retention limits, the ultimate liability for those claims remains with the City.

The City estimates the liability for claims relating to general and auto liability, auto physical damage, and property loss claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	<u>2005</u>	<u>2004</u>
Unpaid Claims - Beginning of year	\$ -	\$ -
Incurred claims (including claims incurred but not reported)	73,959	23,172
Claim payments	<u>(73,959)</u>	<u>(23,172)</u>
Unpaid Claims - End of year	<u>\$ -</u>	<u>\$ -</u>

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the System for these employees was established by council resolution and negotiation with the City's competitive bargaining units and requires a contribution from the employees of 2.00 percent up to 4.80 percent of wages.

Annual Pension Costs - For the year ended 2005, the City's annual pension cost of \$486,572 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Significant actuarial assumptions used include: (i) an 8.0 percent investment rate of return; (ii) projected salary increases of 4.5 percent per year; and (iii) additional projected salary increases ranging from zero to 8.4 percent per year, depending on age, attributable to seniority/merit. Both (i) and (ii) include an inflation component of 4.5 percent and are determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Note 10 - Defined Benefit Pension Plan and Postretirement Benefits (Continued)

Three-year trend information is as follows:

	Fiscal Year Ended June 30		
	2003	2004	2005
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 351,538	\$ 401,830	\$ 486,572
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
Actuarial Valuation as of December 31			
	2002	2003	2004
Actuarial value of assets	\$ 7,242,507	\$ 8,038,118	\$ 8,801,291
Actuarial accrued liability - Entry age	\$ 11,118,622	\$ 12,335,270	\$ 13,457,087
Unfunded AAL	\$ 3,876,115	\$ 4,297,152	\$ 4,655,796
Funded ratio	65%	65%	65%
Covered payroll	\$ 3,363,034	\$ 3,690,982	\$ 3,507,778
UAAL as a percentage of covered payroll	115%	116%	133%

Defined Contribution Pension Plan

The Downtown Development Authority (DDA) provides pension benefits to its director and assistant director through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by negotiation, the DDA contributes 10 percent of the employees' gross earnings. In accordance with these requirements, the DDA contributed \$7,392 during the current year, and no contributions were made by the employees. This plan is administered by the International City Manager's Association.

Note 11 - Construction Code Fees

The City oversees building construction, in accordance with the State's construction code act, including inspections of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs.

A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000, is as follows:

Cumulative surplus at June 30, 2004	\$	58,268
Current year building permit revenue		162,862
Related expenses:		
Direct costs	\$	197,607
Estimated indirect costs		<u>19,760</u>
Total construction code expenses		<u>217,367</u>
Cumulative surplus at June 30, 2005	\$	<u><u>3,763</u></u>

Note 12 - Contingent Liabilities

The City has been served in civil and administrative actions brought against it seeking damages from matters within the geographical limits of and/or activities of the City of Howell, Michigan. In the opinion of the administration and its legal counsel, any potential settlement of these actions should have no material effect upon the financial position of the City.

The City has been notified relating to an adjustment of the assessment relating to a local business. The local business is seeking a reduction in their assessed taxable value. However, due to the preliminary nature of the claim, no amounts have been reflected within the financial statements.

Note 13 - Lucy Road Park

During the 1960s, the City operated a public landfill off Lucy Road. In the early 1970s, the site was converted to a recreation park. In 1987 the Michigan Department of Natural Resources (MDNR) determined through well data reports that an environmental problem exists at the site. In response, the City hired an environmental law firm to negotiate with the MDNR to resolve the problem.

The City reached a final agreement with the Michigan Department of Environmental Quality (MDEQ) to repay \$187,500 incurred by the MDEQ and the State of Michigan for replacing the water supply previously used by area businesses and residents. The costs incurred by the MDEQ were \$625,000. Other responsible parties were also held liable and reimbursed the City for their portion of the costs.

In addition, potential future remediation costs may be incurred. There is also a 60/40 percent agreement with another responsible party related to the remediation with the City. Total costs of future remediation cannot yet be estimated, therefore no liability has been recorded.

Note 14 - Joint Venture

The City is a member of the Howell Area Fire Authority, which was jointly incorporated by the City of Howell, Cohoctah Township, Marion Township, Oceola Township, and Howell Township (the Municipalities) for the purpose of providing fire protection and other emergency health and safety services to the Municipalities. The City appoints a member to the joint venture's governing board which then approves the annual budget. The City's equity interest in the joint venture at June 30, 2005 is \$407,118, which is recorded within the governmental activities column in the statement of net assets. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Authority can be obtained from the administrative offices at 1211 W. Grand River, Howell, Michigan.

Note 15 - Other Postemployment Benefits

In addition to the pension benefits described in Note 10, the City provides postemployment health care benefits to all employees with 15 years of service. Currently 16 retirees are eligible. The City will pay the full amount of health care benefits for employees who have 20 or more years of service. The City will pay a percentage, varying from 75 to 95 percent, of health care benefits for employees with 15 to 19 years of service. The cost of retiree healthcare benefits is recognized when the premiums are paid. For the year ended June 30, 2005, those costs totaled \$97,935, net of employee reimbursement of \$4,721.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended June 30, 2009.

Required Supplemental Information

City of Howell

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,364,161	\$ 2,755,045	\$ 2,755,045	\$ -
Resources (Inflows)				
Property taxes:				
Current	4,911,476	4,911,476	4,896,994	(14,482)
Delinquent	2,000	2,000	9,037	7,037
Interest and penalties	10,000	10,000	18,692	8,692
Administration fees	105,000	118,000	117,968	(32)
Total property taxes	5,028,476	5,041,476	5,042,691	1,215
Federal sources:				
LAWNET	25,000	30,600	38,539	7,939
State and local sources:				
Sales tax	889,500	889,500	867,744	(21,756)
Other	6,000	6,000	6,186	186
Total state and local sources	895,500	895,500	873,930	(21,570)
Licences and permits:				
Business	90,100	90,100	99,362	9,262
Nonbusiness	217,366	128,000	140,288	12,288
Total licenses and permits	307,466	218,100	239,650	21,550
Fines and forfeitures:				
Traffic code fines	60,000	90,750	94,056	3,306
Charges for services:				
Building department	20,000	20,000	22,370	2,370
Cemetery	54,500	54,500	62,538	8,038
Parks and recreation	15,400	15,400	12,664	(2,736)
Total charges for services	89,900	89,900	97,572	7,672
Investment and rental income:				
Investment income	32,000	49,000	60,258	11,258
Rental income	163,838	163,838	168,107	4,269
Total investment and rental income	195,838	212,838	228,365	15,527

City of Howell

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Resources (Inflows) (Continued)				
Other revenue:				
Special assessments	\$ 8,000	\$ 8,000	\$ 14,597	\$ 6,597
Administrative overhead	40,000	40,000	40,000	-
Reimbursements	119,068	146,008	86,190	(59,818)
Refunds and rebates	14,000	14,000	16,460	2,460
Miscellaneous	<u>71,578</u>	<u>77,578</u>	<u>112,830</u>	<u>35,252</u>
Total other revenue	252,646	285,586	270,077	(15,509)
Other financing sources:				
Transfers from other funds	<u>323,000</u>	<u>144,000</u>	<u>18,889</u>	<u>(125,111)</u>
Amounts available for appropriation	7,177,826	7,008,750	6,903,769	(104,981)

City of Howell

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Charges to Appropriations (Outflows)				
General government:				
Mayor and council	\$ 57,514	\$ 62,514	\$ 60,624	\$ 1,890
Manager	257,241	257,241	228,075	29,166
Finance director	-	35,800	33,696	2,104
Assistant manager/personnel and safety	67,186	110,186	93,970	16,216
Elections	29,050	29,050	19,631	9,419
Treasurer	491,752	455,952	370,955	84,997
Assessor	188,819	158,819	140,970	17,849
Attorney	100,350	100,350	95,725	4,625
Board of Review	3,679	3,679	3,506	173
Cable commission	1,475	1,475	21	1,454
Clerk	247,514	247,514	191,497	56,017
City Hall	284,560	284,560	260,753	23,807
Parking lot maintenance	27,118	31,118	29,514	1,604
Cemetery	254,997	297,997	263,641	34,356
Cemetery - M59	342,745	99,745	78,589	21,156
Forestry/conservation	62,903	62,903	52,669	10,234
Information technology	146,000	146,000	136,562	9,438
Contingencies	10,000	10,000	10,000	-
Single business tax inventory reimbursement	6,809	6,809	6,809	-
Total general government	2,579,712	2,401,712	2,077,207	324,505
Public safety:				
Police	2,253,101	2,267,101	2,166,153	100,948
Fire	26,854	26,854	25,425	1,429
Building inspector	216,766	216,766	197,605	19,161
Zoning department	78,624	78,624	64,987	13,637
Planning commissioner	23,450	38,450	20,440	18,010
Total public safety	2,598,795	2,627,795	2,474,610	153,185
Public works:				
Sidewalk maintenance	138,151	148,151	138,589	9,562
Drain work	189,500	189,500	122,058	67,442
Engineering	175,520	175,520	118,493	57,027
Street lighting	229,000	256,940	248,126	8,814
Total public works	732,171	770,111	627,266	142,845

City of Howell

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Charges to Appropriations (Outflows) (Continued)				
Recreation and cultural:				
Community promotion	\$ 120,743	\$ 131,743	\$ 125,263	\$ 6,480
Neighborhood parks	<u>31,882</u>	<u>31,882</u>	<u>24,470</u>	<u>7,412</u>
Total recreation and cultural	152,625	163,625	149,733	13,892
Other financing uses:				
Transfers to other funds	<u>2,205,496</u>	<u>1,863,186</u>	<u>1,659,242</u>	<u>203,944</u>
Total charges to appropriations	<u>8,268,799</u>	<u>7,826,429</u>	<u>6,988,058</u>	<u>838,371</u>
Fund Balance - End of year	<u>\$ 1,273,188</u>	<u>\$ 1,937,366</u>	<u>\$ 2,670,756</u>	<u>\$ 733,390</u>

Other Supplemental Information

City of Howell

Other Supplemental Information Budgetary Comparison Schedule - Major Street Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 388,623	\$ 469,120	\$ 469,120	\$ -
Resources (Inflows)				
State sources	440,199	440,199	421,569	(18,630)
Investment and rental income	3,000	3,000	4,626	1,626
Other revenue	<u>-</u>	<u>-</u>	<u>1,873</u>	<u>1,873</u>
Amounts available for appropriation	443,199	443,199	428,068	(15,131)
Charges to Appropriations				
Public works	720,017	534,017	403,299	130,718
Other Financing Uses				
Transfers to other funds	<u>-</u>	<u>328,000</u>	<u>328,000</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 111,805</u></u>	<u><u>\$ 50,302</u></u>	<u><u>\$ 165,889</u></u>	<u><u>\$ 115,587</u></u>

City of Howell

Other Supplemental Information Budgetary Comparison Schedule - Local Street Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 123,564	\$ 226,069	\$ 226,069	\$ -
Resources (Inflows)				
State sources	134,481	134,481	146,013	11,532
Investment and rental income	600	600	1,344	744
Other revenue	200	200	27,661	27,461
Transfers from other funds	<u>134,939</u>	<u>328,000</u>	<u>328,000</u>	<u>-</u>
Amounts available for appropriation	270,220	463,281	503,018	39,737
Charges to Appropriations				
Public works	<u>393,784</u>	<u>650,384</u>	<u>622,577</u>	<u>27,807</u>
Fund Balance - End of year	<u><u>\$ -</u></u>	<u><u>\$ 38,966</u></u>	<u><u>\$ 106,510</u></u>	<u><u>\$ 67,544</u></u>

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2005

	Special Revenue Funds						
	Major Street	Local Street	Rubbish and Garbage	Lucy Road Park Recovery	Drug Law Enforcement	Police Training	Property
Assets							
Cash and investments	\$ 98,081	\$ 214,241	\$ 23,726	\$ 154,810	\$ 4,950	\$ 3,082	\$ 299,111
Receivables - Net	-	-	19,494	-	-	-	-
Prepaid costs and other assets	2,235	2,146	3,905	-	-	-	-
Due from other funds	20,511	7,311	592	2,776	-	-	-
Due from other governmental units	67,519	50,298	-	-	-	-	-
Land held for sale	-	-	-	-	-	-	306,497
Total assets	<u>\$ 188,346</u>	<u>\$ 273,996</u>	<u>\$ 47,717</u>	<u>\$ 157,586</u>	<u>\$ 4,950</u>	<u>\$ 3,082</u>	<u>\$ 605,608</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 5,719	\$ 163,726	\$ 73	\$ 4,245	\$ -	\$ 930	\$ -
Accrued and other liabilities	1,622	1,145	1,041	129	-	-	-
Due to other funds	15,116	2,615	46,603	-	-	-	60,000
Total liabilities	22,457	167,486	47,717	4,374	-	930	60,000
Fund Balances							
Reserved:							
Law enforcement	-	-	-	-	4,950	2,152	-
Land for sale	-	-	-	-	-	-	306,497
Cemetery	-	-	-	-	-	-	-
Unreserved:							
Special revenue	165,889	106,510	-	153,212	-	-	239,111
Capital projects	-	-	-	-	-	-	-
Total fund balances	<u>165,889</u>	<u>106,510</u>	<u>-</u>	<u>153,212</u>	<u>4,950</u>	<u>2,152</u>	<u>545,608</u>
Total liabilities and fund balances	<u>\$ 188,346</u>	<u>\$ 273,996</u>	<u>\$ 47,717</u>	<u>\$ 157,586</u>	<u>\$ 4,950</u>	<u>\$ 3,082</u>	<u>\$ 605,608</u>

Other Supplemental Information Combining Balance Sheet (Continued) Nonmajor Governmental Funds June 30, 2005

	Special Revenue Funds			Debt Service Funds			Capital Projects Funds	
	Reserves	Parks and Recreation	Cemetery Perpetual Care	1995 General Obligation	Building Authority Bond	City Hall Debt Retirement	Dearborn - Marion Fund	1997 Construction Fund
Assets								
Cash and investments	\$ 574,611	\$ 52,673	\$ 487,325	\$ -	\$ -	\$ 343	\$ -	\$ -
Receivables - Net	-	2,845	-	-	-	-	-	-
Prepaid costs and other assets	-	8,085	-	-	-	-	-	-
Due from other funds	10,487	10,770	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	-	-	-	-
Land held for sale	-	-	-	-	-	-	-	-
Total assets	<u>\$ 585,098</u>	<u>\$ 74,373</u>	<u>\$ 487,325</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ -	\$ 23,047	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued and other liabilities	-	11,270	-	-	-	343	-	-
Due to other funds	-	29,895	14,889	-	-	-	-	-
Total liabilities	-	64,212	14,889	-	-	343	-	-
Fund Balances								
Reserved:								
Law enforcement	-	-	-	-	-	-	-	-
Land for sale	-	-	-	-	-	-	-	-
Cemetery	-	-	472,436	-	-	-	-	-
Unreserved:								
Special revenue	585,098	10,161	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-	-	-
Total fund balances	<u>585,098</u>	<u>10,161</u>	<u>472,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 585,098</u>	<u>\$ 74,373</u>	<u>\$ 487,325</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 343</u>	<u>\$ -</u>	<u>\$ -</u>

Other Supplemental Information Combining Balance Sheet (Continued) Nonmajor Governmental Funds June 30, 2005

	Capital Projects Funds						
	South Michigan Avenue Fund	Riddle Street Construction Fund	Roosevelt - North Fund	2000 M-59 Utility Fund	Skate Park Construction Fund	Loop Road Construction Fund	Total Nonmajor Governmental Funds
Assets							
Cash and investments	\$ 232,014	\$ -	\$ -	\$ 66,283	\$ 121,782	\$ 25,769	\$ 2,358,801
Receivables - Net	-	-	-	-	-	-	22,339
Prepaid costs and other assets	-	-	-	-	-	-	16,371
Due from other funds	-	-	-	-	-	60,000	112,447
Due from other governmental units	-	-	-	-	-	-	117,817
Land held for sale	-	-	-	-	-	-	306,497
Total assets	<u>\$ 232,014</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,283</u>	<u>\$ 121,782</u>	<u>\$ 85,769</u>	<u>\$ 2,934,272</u>
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 55,548	\$ -	\$ -	\$ -	\$ 22,865	\$ 43,031	\$ 319,184
Accrued and other liabilities	-	-	-	-	-	-	15,550
Due to other funds	<u>20,511</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>189,629</u>
Total liabilities	76,059	-	-	-	22,865	43,031	524,363
Fund Balances							
Reserved:							
Law enforcement	-	-	-	-	-	-	7,102
Land for sale	-	-	-	-	-	-	306,497
Cemetery	-	-	-	-	-	-	472,436
Unreserved:							
Special revenue	-	-	-	-	-	-	1,259,981
Capital projects	<u>155,955</u>	<u>-</u>	<u>-</u>	<u>66,283</u>	<u>98,917</u>	<u>42,738</u>	<u>363,893</u>
Total fund balances	<u>155,955</u>	<u>-</u>	<u>-</u>	<u>66,283</u>	<u>98,917</u>	<u>42,738</u>	<u>2,409,909</u>
Total liabilities and fund balances	<u>\$ 232,014</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,283</u>	<u>\$ 121,782</u>	<u>\$ 85,769</u>	<u>\$ 2,934,272</u>

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2005

	Special Revenue Funds						
	Major Street	Local Street	Rubbish and Garbage	Lucy Road Park Recovery	Drug Law Enforcement	Police Training	Property
Revenue							
State sources	\$ 421,569	\$ 146,013	\$ -	\$ -	\$ -	\$ 4,674	\$ -
Charges for services	-	-	148,010	-	-	-	-
Interest income	-	-	-	-	-	-	-
Investment income	4,626	1,344	265	2,004	-	-	10,439
Other	1,873	27,661	284	-	1,000	-	-
Total revenue	428,068	175,018	148,559	2,004	1,000	4,674	10,439
Expenditures							
Current:							
Public safety	-	-	-	-	-	2,875	-
Public works	403,299	622,577	568,435	58,130	-	-	-
Recreation and culture	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	1,000
Capital outlay	-	-	-	-	-	-	-
Debt service:							
Principal retirement	-	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-	-
Total expenditures	403,299	622,577	568,435	58,130	-	2,875	1,000
Excess of Revenue Over (Under) Expenditures	24,769	(447,559)	(419,876)	(56,126)	1,000	1,799	9,439
Other Financing Sources (Uses)							
Transfers in	-	328,000	354,401	-	-	-	-
Transfers out	(328,000)	-	-	-	-	-	(300,000)
Total other financing sources (uses)	(328,000)	328,000	354,401	-	-	-	(300,000)
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(303,231)	(119,559)	(65,475)	(56,126)	1,000	1,799	(290,561)
Fund Balances - Beginning of year	469,120	226,069	65,475	209,338	3,950	353	836,169
Fund Balances - End of year	\$ 165,889	\$ 106,510	\$ -	\$ 153,212	\$ 4,950	\$ 2,152	\$ 545,608

Other Supplemental Information

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued)

Year Ended June 30, 2005

	Special Revenue Funds			Debt Service Funds			Capital Projects Funds	
	Reserves	Parks and Recreation	Cemetery Perpetual Care	1995 General Obligation	Building Authority Bond	City Hall Debt Retirement	Dearborn - Marion Fund	1997 Construction Fund
Revenue								
State sources	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	-	468,799	-	-	-	-	-	-
Interest income	-	-	9,013	-	-	-	-	-
Investment income	13,200	433	-	-	-	-	-	-
Other	-	86,493	15,350	-	-	-	-	-
Total revenue	13,200	555,725	24,363	-	-	-	-	-
Expenditures								
Current:								
Public safety	-	-	-	-	-	-	-	-
Public works	-	-	-	-	-	-	-	-
Recreation and culture	-	936,339	-	-	-	-	-	-
Other	3,147	-	-	-	-	-	-	-
Capital outlay	-	71,893	-	-	-	-	-	-
Debt service:								
Principal retirement	-	-	-	125,000	55,000	-	-	-
Interest and fiscal charges	-	-	-	44,871	20,188	-	-	-
Total expenditures	3,147	1,008,232	-	169,871	75,188	-	-	-
Excess of Revenue Over (Under) Expenditures	10,053	(452,507)	24,363	(169,871)	(75,188)	-	-	-
Other Financing Sources (Uses)								
Transfers in	17,634	518,714	-	169,871	75,188	-	-	-
Transfers out	(4,000)	(103,230)	(14,889)	-	-	-	(16,809)	(367)
Total other financing sources (uses)	13,634	415,484	(14,889)	169,871	75,188	-	(16,809)	(367)
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	23,687	(37,023)	9,474	-	-	-	(16,809)	(367)
Fund Balances - Beginning of year	561,411	47,184	462,962	-	-	-	16,809	367
Fund Balances - End of year	\$ 585,098	\$ 10,161	\$ 472,436	\$ -	\$ -	\$ -	\$ -	\$ -

Other Supplemental Information

Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds (Continued)

Year Ended June 30, 2005

	Capital Projects Funds						
	South Michigan Avenue	Riddle Street Construction Fund	Roosevelt - North Fund	2000 M-59 Utility Fund	Skate Park Construction Fund	Loop Road Construction Fund	Total Nonmajor Governmental Funds
Revenue							
State sources	\$ 30,595	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 602,851
Charges for services	-	-	-	-	-	-	616,809
Interest income	3,051	-	-	-	-	18	12,082
Investment income	-	-	-	330	81	-	32,722
Other	-	-	-	-	56,518	-	189,179
Total revenue	33,646	-	-	330	56,599	18	1,453,643
Expenditures							
Current:							
Public safety	-	-	-	-	-	-	2,875
Public works	-	219	-	-	-	-	1,652,660
Recreation and culture	-	-	-	-	-	-	936,339
Other	13,350	-	-	-	-	-	17,497
Capital outlay	152,157	-	-	-	51,141	257,280	532,471
Debt service:							
Principal retirement	-	-	-	-	-	-	180,000
Interest and fiscal charges	-	-	-	-	-	-	65,059
Total expenditures	165,507	219	-	-	51,141	257,280	3,386,901
Excess of Revenue Over (Under) Expenditures	(131,861)	(219)	-	330	5,458	(257,262)	(1,933,258)
Other Financing Sources (Uses)							
Transfers in	-	-	-	-	93,459	300,000	1,857,267
Transfers out	-	(63)	(14,464)	-	-	-	(781,822)
Total other financing sources (uses)	-	(63)	(14,464)	-	93,459	300,000	1,075,445
Excess of Revenue and Other Financing Sources Over (Under) Expenditures and Other Uses	(131,861)	(282)	(14,464)	330	98,917	42,738	(857,813)
Fund Balances - Beginning of year	287,816	282	14,464	65,953	-	-	3,267,722
Fund Balances - End of year	\$ 155,955	\$ -	\$ -	\$ 66,283	\$ 98,917	\$ 42,738	\$ 2,409,909

City of Howell

Other Supplemental Information Combining Statement of Net Assets Internal Service Funds June 30, 2005

	Department of Public Service	Equipment	Totals
Assets			
Current assets:			
Cash and investments	\$ 406,680	\$ 419,264	\$ 825,944
Receivables - Net	1,506	-	1,506
Due from other funds	-	106,286	106,286
Due from other governmental units	-	1,710	1,710
Prepaid costs and other assets	1,967	1,432	3,399
Total current assets	410,153	528,692	938,845
Noncurrent assets - Net capital assets	177,658	677,680	855,338
Total assets	587,811	1,206,372	1,794,183
Liabilities			
Current liabilities:			
Accounts payable	4,242	4,095	8,337
Accrued liabilities	25,028	1,434	26,462
Due to other funds	1,164	-	1,164
Total liabilities	30,434	5,529	35,963
Net Assets			
Invested in capital assets - Net of related debt	177,658	677,680	855,338
Unrestricted	379,719	523,163	902,882
Total net assets	<u>\$ 557,377</u>	<u>\$ 1,200,843</u>	<u>\$ 1,758,220</u>

City of Howell

Other Supplemental Information Combining Statement of Revenue, Expenses, and Changes in Net Assets Internal Service Funds Year Ended June 30, 2005

	Department of Public Service	Equipment	Totals
Operating Revenue			
Charges for equipment use	\$ -	\$ 550,113	\$ 550,113
Charges for building use	309,066	-	309,066
Miscellaneous	16,724	2,293	19,017
	<u>325,790</u>	<u>552,406</u>	<u>878,196</u>
Operating Expenses			
Payroll	102,559	87,051	189,610
Fringe benefits	47,955	44,225	92,180
Operating supplies	22,110	96,702	118,812
Professional service	15,102	700	15,802
Communications	2,852	2,018	4,870
Insurance	9,748	36,801	46,549
Public utilities	9,985	4,591	14,576
Plant and equipment maintenance	1,649	30,713	32,362
Equipment rental	13,963	-	13,963
Depreciation	26,768	197,696	224,464
Miscellaneous	2,610	248	2,858
Overhead	-	29,936	29,936
Other expenses	1,901	174	2,075
	<u>257,202</u>	<u>530,855</u>	<u>788,057</u>
Operating Income	68,588	21,551	90,139
Nonoperating Income			
Interest income	4,589	6,237	10,826
Sale of vehicles and equipment	-	27,687	27,687
	<u>4,589</u>	<u>33,924</u>	<u>38,513</u>
Transfers from Other Funds	43,242	-	43,242
Net Income	116,419	55,475	171,894
Net Assets - Beginning of year	440,958	1,145,368	1,586,326
Net Assets - End of year	<u>\$ 557,377</u>	<u>\$ 1,200,843</u>	<u>\$ 1,758,220</u>

Other Supplemental Information Combining Statement of Cash Flows Internal Service Funds Year Ended June 30, 2005

	Department of Public Service	Equipment	Totals
Cash Flows from Operating Activities			
Receipts from other funds	\$ 332,890	\$ 552,578	\$ 885,468
Payments to suppliers	(79,640)	(177,516)	(257,156)
Payments to employees	(150,514)	(131,276)	(281,790)
Payments to other funds	(2,317)	(107,667)	(109,984)
Net cash provided by operating activities	100,419	136,119	236,538
Cash Flows from Noncapital Financing Activities			
Operating transfers from other funds	43,242	-	43,242
Cash Flows from Capital Activities			
Purchases of capital assets	(16,983)	(185,218)	(202,201)
Proceeds from sale of capital assets	-	49,418	49,418
Net cash used in capital activities	(16,983)	(135,800)	(152,783)
Cash Flows from Investing Activities			
Interest received on investments	4,589	6,237	10,826
Purchases of investment securities	(4,487)	(6,199)	(10,686)
Net cash provided by investing activities	102	38	140
Net Increase in Cash and Cash Equivalents	126,780	357	127,137
Cash and Cash Equivalents - Beginning of year	3,593	37,129	40,722
Cash and Cash Equivalents - End of year	<u>\$ 130,373</u>	<u>\$ 37,486</u>	<u>\$ 167,859</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 406,680	\$ 419,264	\$ 825,944
Less amounts classified as investments	(406,680)	(419,264)	(825,944)
Total cash and cash equivalents	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 68,588	\$ 21,551	\$ 90,139
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	26,768	197,696	224,464
Change in assets and liabilities:			
Accounts receivable	7,100	-	7,100
Due from other funds	-	(77,731)	(77,731)
Due from other governmental units	-	172	172
Prepaid costs and other assets	1,249	909	2,158
Accounts payable	2,287	(3,872)	(1,585)
Due to other funds	(2,317)	-	(2,317)
Accrued liabilities	(3,256)	(2,606)	(5,862)
Net cash provided by operating activities	<u>\$ 100,419</u>	<u>\$ 136,119</u>	<u>\$ 236,538</u>

City of Howell, Michigan

Report to the City Council

June 30, 2005

plante

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To the Honorable Mayor and
Members of the City Council
City of Howell, Michigan

We recently completed our audit of the financial statements of the City of Howell, Michigan for the year ended June 30, 2005. During the performance of our audit, we had the opportunity to observe items related to the internal controls and operations as a whole that we would like to bring to your attention. All items are presented for your consideration on attachments as outlined below.

<u>Title</u>	<u>Page</u>
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We appreciate the opportunity to be of service to the City of Howell. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward to continuing our relationship with the City. Should you wish to discuss any of the items included in this letter, we would be happy to do so.

Plante & Moran, PLLC

September 9, 2005

Recommendations

City of Howell, Michigan

Recommendations

Accumulated Personal Leave Time

The City's policy for personal leave days states that employees can "carry over a maximum of 44 leave days on the employees' anniversary date." However, the City continues to allow employees to carry over additional days to be used in the future or for payout upon retirement or termination. We recommend that the City follow the current policy for accumulated personal leave time, or amend the policy appropriately. Enforcing this policy may be especially helpful due to the slowdown in the state's economy affecting the state shared revenue monies the City receives.

Accounts Payable

It was noted during our testing that some departments may be delaying the recording of invoices at year-end based upon the budget year the expense relates to, not the year the work was completed. Although this procedure may help with budget to actual evaluation, generally accepted accounting principles (GAAP) state that accounts payable should be determined based upon whether the service or items were received prior to the end of the fiscal year, regardless of when the invoice is received or when it was budgeted for.

The proper recording of accounts payable at year-end would provide more accurate financial information. In addition, it would provide management with a more precise picture of the cash that is available for future expenses in order to ensure knowledgeable decision-making. We understand that management is already aware of this process. We encourage management and the Council to continue your efforts in further enhancing this process.

Retiree Health Care Benefits

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financial statements rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted will not change, unless you begin funding the benefits (however, as discussed below, there are incentives to do so).

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government-wide statement of net assets.

City of Howell, Michigan Recommendations

Retiree Health Care Benefits (Continued)

This valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years; for those over 200 participants, at least every other year.

This statement is being phased in over a three year period, similar to GASB 34. It is effective for fiscal years beginning after December 15, 2006, 2007, or 2008 depending on whether your revenues are over \$100 million, between \$10 million and \$100 million, or under \$10 million. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates.

The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the normal fairness issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. So – funding the contribution will actually reduce your long run cost.

Legislative Matters

City of Howell, Michigan

Legislative Matters

State Shared Revenue (Continued)

State shared revenue accounts for approximately 13 percent of the City's total General Fund revenue. The table below details state shared revenue for the City over the past five years broken out by statutory and constitutional portions. In addition, it details the total decrease in state shared revenue experienced by the City compared to the State's fiscal year 2000.

<u>State Fiscal Year</u>	<u>Statutory</u>	<u>Constitutional</u>	<u>Total</u>	<u>Decrease from 2000</u>
2000	\$504,405	\$549,956	\$1,054,361	-
2001	\$491,397	\$591,752	\$1,083,149	N/A
2002	\$438,230	\$598,092	\$1,036,322	1.7%
2003	\$369,802	\$609,900	\$979,702	7.1%
2004	\$277,235	\$603,275	\$880,510	16.5%
2005	\$253,240	\$617,672	\$870,912	17.4%

We will continue to update the City as developments occur.

Transportation Matters

The State is now expecting lower than anticipated Act 51 receipts for the State's 2004/2005 fiscal year which ends September 30, 2005. The Michigan Department of Transportation reported that receipts through the six month period ended April 30, 2005 were four percent behind last year. Plante & Moran publishes annually forecasted Act 51 distribution rates which we receive from the State and are based on its forecast of anticipated collections at the State level. If actual collections are less than amounts forecasted by the Michigan Department of Transportation, this could likely result in revenue less than budgeted amounts in the City's Major and Local Street Fund. The lower than anticipated collections could impact the City's fiscal years 2004/2005 and 2005/2006 budgets.

Local Government Finance Model

This spring, the Governor issued an Executive Order assembling a Local Government Fiscal Task Force to study the financial challenges of Michigan local governments. The task force has yet to actually have its first meeting and get off the ground. While their report was originally due by November 30, 2005, the Local Government Fiscal Task Force will hold its first meeting in September 2005. Unrelated to the Local Government Fiscal Task Force, Citizens Research Council is conducting a study focused on documenting the nature and extent of structural fiscal problems facing local governments and to catalogue local services and activities for local units (with the intention that local governments will use this information to study the possibility of greater collaborative efforts to optimize government resources).

City of Howell, Michigan

Legislative Matters

Tax Matters

The centerpiece of the Governor's fiscal year 2005/2006 State of Michigan budget is significant business tax reform of the Michigan Single Business Tax. The Governor's business tax reform proposal appeared to spare local governments from any negative impact of the changes and actually contained a provision to address a loophole in property tax assessments related to commercial property (known as WPW). As of this date, there is no consensus in Lansing on the Governor's tax proposal and alternative proposals are being discussed in the Legislature. Therefore, the impact on local governments from these potential changes cannot be determined. A key component to most of the tax restructuring proposals is a significant credit on personal property taxes paid by certain businesses. Many questions have arisen from these proposals, such as who determines the property that qualifies for credit and how will local governments be reimbursed by the State for the lost tax revenue (as is the stated intention), etc. Debate on these tax restructuring proposals will continue over the next several months.

The loophole involving the inconsistent treatment of the assessment of commercial property is commonly referred to as the "WPW Case" involving the City of Troy. The inconsistent treatment occurs when the taxable value of a commercial property is reduced based on a loss in occupancy and a corresponding increase will not occur when occupancy increases resulting in a permanent taxable cap on property (subject to annual inflationary increases). This method of assessing commercial property (known as the "occupancy method") has been used by assessors to give commercial property owners a break when occupancy of their property has decreased and then to restore the taxable value of the property consistent with previous levels when occupancy increases. Currently, there are two bills in the House (House Bills 5096 and 5097) that have received hearings and consideration which would address this matter.

Taxing Municipal Recreation Operations

During the State's fiscal year 2005/2006 budget discussions, a proposal was introduced to put certain municipal operations that are in competition with the private sector on an equal playing field by requiring them to pay certain state taxes paid by the private sector. The main target appears to be municipal golf course operations but other recreation operations (such as ice arenas) could become part of the scope. There have been hearings on the subject and it is not clear which direction this issue will take in the fall.

City of Howell, Michigan

Legislative Matters

Personal Property Tax

Several years ago, the State Tax Commission adopted new personal property tax tables for utilities (which made drastic changes to the transmission and distribution property of utilities and resulted in a corresponding revenue loss to local governments). Many communities elected to continue to assess the transmission and distribution property of utilities using the old personal property tax tables which generated a series of lawsuits on this subject. To date, the new utility personal property tax tables implemented by the State Tax Commission have been upheld. In certain jurisdictions, refunds have been made or are in process from local governments to the utilities.

There appears to be considerable inconsistency relative to how the utility companies are proceeding related to refunds due from local governments (both between utilities and with respect to how a particular utility is handling different local governments). Some matters have been settled and resolved. Other open matters are at different stages. We have heard that a utility made a settlement offer to certain local units at 75 percent of the amount owed them. In relation to this matter, during the proceedings related to change in the multiplier tables, it was discovered that certain utilities may have under reported their self constructed assets creating the potential that monies were due to local governments for under paid property taxes. Earlier during the resolution of the multiplier table issue, it appeared that the resolution of both the multiplier table issue and the issue of under reported self constructed assets by the utilities would be resolved together. It appears that the State Tax Commission has separated these matters leaving the door open for the utilities to proceed with collection efforts on judgments outstanding related to the multiplier tables.

We encourage the City to continue to monitor these developments as the City could be negatively impacted by the outcome.

Property Assessment Cap

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or five percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

City of Howell, Michigan

Legislative Matters

State Shared Revenue

The Governor's budget for the State of Michigan's fiscal year 2005/2006 provides for both constitutional and statutory revenue-sharing at approximately \$1.1 billion, which is basically the fiscal year 2004/2005 funding level. In essence, no further reductions to revenue-sharing below the current fiscal year 2004/2005 funding level were being proposed. During the budget deliberation process over the spring and summer, cuts were proposed by the Legislature to revenue-sharing and then subsequently restored. The budget for fiscal year 2005/2006 is not done yet. While the expectation is that revenue-sharing payments on an individual community-by-community basis for fiscal year 2005/2006 will be funded at fiscal year 2004/2005 levels, the Legislature still must finalize its budget negotiations or the revenue-sharing act will require an amendment to accomplish distribution in this manner. By law, the Legislature and the Governor need to complete their work on the budget by September 30, 2005 and appropriations (like revenue-sharing, which is one very large line item in the State's budget) can change during that time.

Even though there is the expectation that revenue-sharing will hold constant at prior year funding levels, continued caution should be exercised when budgeting this line item. While it is good news that revenue-sharing may be maintained at current levels, sales tax revenue would support an increase to total state shared revenue payments and for fiscal years 2004/2005 and 2005/2006 the appropriation in the State's budget for revenue sharing payments is over \$500 million less annually than amounts provided for in law and based on actual sales tax collections. There appears to be no long-term solution to the State's structural deficit in its General Fund and as long as this condition exists, revenue-sharing remains at risk and a return to past funding levels is not likely in the foreseeable future.

As a result of a change made by the State to revenue-sharing last year, counties were required to move their property tax levy date for their operating millage from December to July in July 2005. A portion of the additional funds generated from the early property tax levy will be used by the counties over a multiple year period to replace statutory revenue sharing that will not be paid by the State. The plan calls for the return of statutory revenue-sharing for the counties when their restricted monies from the early levy run out.

City of Howell, Michigan

Legislative Matters

Property Assessment Cap (Continued)

The 2004 inflation factor was used for property taxes levied in the City's fiscal year ended June 30, 2005. Property taxes are the City's largest source of General Fund revenue. However, as indicated above, growth in existing property can be significantly limited due to Proposal A. This factor should be considered when the City is performing long-term financial planning.

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back". However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2005, the City's Headlee maximum property tax rate for its operating levy was 16.0443 mills, even though City Charter would allow the City to levy 20 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent, absent a Headlee override vote. Additionally, as demonstrated by a recent study published by the Michigan Municipal League (with the participation of the Michigan Townships Association and the Michigan Association of Counties), due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), the downward pressure on millage rates will continue particularly given the significant gap that now exists between taxable value and state equalized value.

City of Howell, Michigan

Legislative Matters

Telecommunications Act Expiration Date Approaches

The Michigan Telecommunications Act is scheduled to sunset at December 31, 2005. There is a threat that the rewrite of the Act could include a restriction or elimination of the regulation of telecommunication companies (including cable operators which would impact franchise fees received by local governments). There is also considerable discussion about prohibiting local governments from being in the telecommunications business which may have an impact on current or future activities of the City.

Municipal Finance Act Revisions

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old ten day "exemption from prior approval" process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City's year end June 30, 2005 and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.